

1 Q. **Reference: Volume 2, Exhibit 2, Attachment 2 (KPMG Report), pages 16 and 22**

2 KPMG provides (page 16) a high level summary of Manitoba Hydro's integrated cost allocation
3 methodology (ICAM). KPMG outlines (page 22) that Hydro considered the use of a
4 Massachusetts Formula (three-factor allocator), which is generally calculated using a
5 combination of a revenue metric, a PPE/capital assets metric and a labour metric. KPMG further
6 outlines that Hydro identified some concerns with a revenue component of a three-factor
7 allocator. KPMG also indicated that Hydro's proposed hybrid allocator (50% weight to gross PPE
8 and 50% weight to total O&M cost) is similar to that of comparator utilities BC Hydro, Manitoba
9 Hydro and OPG. In Order 120/25 (directive 8, page 193), dated September 16, 2025, the
10 Manitoba Public Utilities Board directed that for rate-setting purposes the Manitoba hydro
11 ICAM be revised such that the %activity charges and %hybrid allocators be replaced by a three-
12 factor allocator that equally weights (1/3 to each factor) activity charges, assets and revenues.

13 a) Explain if KPMG considers the Massachusetts Formula (multi-factor allocator) to be a
14 North American regulated utility industry standard for the allocation of shared/common
15 service costs, with the multi-factors generally being revenues, assets and labour.

16 b) Elaborate on the concerns that Hydro has with respect to including a revenue
17 component in its proposed hybrid allocator.

18 c) Provide the calculations of the hybrid cost allocator including the forecast gross PPE and
19 total O&M and weighting for Hydro regulated and non-regulated operations and the
20 proposed weighted hybrid allocator for the 2027 Test Year.

21 d) Provide an estimate and the associated calculations of the impact to the shared service
22 cost allocations to Hydro's regulated operations for the 2027 Test Year, if a revenue
23 factor was added to its proposed hybrid allocator, with 1/3 weight to revenues, 1/3
24 weight to gross PPE and 1/3 weight to O&M costs.

1 A. *The following response was provided by KPMG LLP ("KPMG").*

2 a) KPMG considers multi-factor general allocators, including variants commonly referred to as
3 the Massachusetts Formula, to be a recognized and commonly used approach among
4 Canadian and U.S. utilities for allocating shared or common costs where direct assignment is
5 not practicable, and no single causal allocator is sufficiently representative.

6 KPMG does not consider there to be one prescribed or universally applicable Massachusetts
7 Formula, fixed set of factors or weighting that constitutes the North American regulated-
8 utility industry standard. Common factors include assets, labour or activity, and revenue or
9 another measure of operational scale. The specific factors, their definitions and their
10 weightings vary depending on the nature of the costs being allocated, the utility's corporate
11 and operating structure, available data, and the applicable regulatory context.

12 A regulator may direct a particular formula in a specific proceeding based on the evidence
13 and circumstances before it. That does not make the same fixed formula universally
14 applicable to all utilities or cost pools.

15 KPMG's assessment considered whether Newfoundland and Labrador Hydro's ("Hydro")
16 proposed hybrid allocator was a reasonable proxy within Hydro's overall cost-allocation
17 framework and circumstances, including Hydro's use of direct assignment and specific cost
18 drivers where practical and the potential distortions associated with an unadjusted revenue
19 measure. KPMG did not conclude that either the Massachusetts Formula or Hydro's
20 proposed hybrid allocator is the only or uniquely appropriate methodology.

21 b) As discussed in the Intercompany Transactions Costing Guidelines Review, Hydro identified
22 concerns with the use of revenue as an allocation factor. Specifically, the use of revenue
23 may distort allocation results due to the inclusion of intercompany transactions, such as
24 Muskrat Falls and Labrador-Island Link revenue; revenue earned from the sale of
25 intercompany energy to third parties; and circumstances where revenue rates may not
26 reflect prevailing market values, such as the Churchill Falls contract with Hydro-Québec.
27 Accordingly, Hydro did not consider revenue to be a reliable indicator of the demand for

executive oversight, governance, communications, safety, and environmental support functions that are subject to the hybrid allocator.

- c) Hydro used 2024 Actual results, being the most recent complete year of data available, as a proxy for the proportions expected to apply in the 2027 Test Year. The allocator was derived using gross property, plant and equipment ("PPE") and total operations and maintenance ("O&M") for Hydro's regulated and non-regulated operations, with equal weighting applied to the PPE-based allocator and the O&M-based allocator. The resulting weighted hybrid allocator was then used as the allocator for the 2027 Test Year. The detailed calculations are provided in Table 1.

Table 1: Detailed Calculation for Hybrid Allocator (\$ Millions)

2024	PPE	%	Total O&M	%	2024	Average %
Hydro (Non-Reg)	15,304	80.34%	221	59.64%	Hydro (Non-Reg)	69.99%
Hydro Regulated	3,744	19.66%	149	40.36%	Hydro Regulated	30.01%
Total	19,048	100.00%	370	100.00%	Total	100.00%
Regulated		19.66%		40.36%	Regulated	30.01%
Non-Regulated		80.34%		59.64%	Non-Regulated	69.99%
Total		100.00%		100.00%	Total	100.00%

- d) Hydro is unable to provide the requested estimate. Given Hydro's concerns regarding the use of revenue as an allocator, Hydro has not determined an appropriate revenue measure to include in the calculation. As a result, Hydro cannot reasonably calculate the impact on the allocation of shared service costs to regulated operations of a hybrid allocator weighted one-third to revenue, one-third to gross PPE, and one-third to O&M.